



CITY OF LODI COUNCIL COMMUNICATION

AGENDA TITLE: Adopt Resolution Authorizing City Manager to Execute Task Order No. 2 for Wastewater Utility Financial Planning, Rate Setting and Capacity Charge Study with The Reed Group, Inc., of Sacramento (\$48,100) and Appropriating Funds (\$60,000)

MEETING DATE: June 17, 2009

PREPARED BY: Public Works Director

RECOMMENDED ACTION: Adopt a resolution authorizing the City Manager to execute Task Order No. 2 in the amount of \$48,100 for wastewater utility financial planning, rate setting and capacity charge study with The Reed Group, Inc., of Sacramento, and appropriating funds in the amount of \$60,000.

BACKGROUND INFORMATION: The City Council is planning to conduct a public hearing on July 15, 2009 to consider adjustments to the wastewater utility rates but the scope of this task order is not related to that pending public hearing. Instead, this project will evaluate the wastewater utility rate structure in order to convert residential rates from a "bedroom-count" basis to a usage-based utility rate that will be linked to the future water usage-based rate that will replace the "bedroom-count" rate structure currently used in the City. The Reed Group, Inc., is currently in the process of completing work on the development of the water usage-based rate structure that will be implemented as part of the water meter installation program.

Both the water and wastewater usage-based rates will be brought back to the City Council for consideration and action later this year. For those customers with water meters installed, it is our goal to provide comparative water and wastewater monthly billing information for the 2010 year prior to the start of billing at usage-based rates in 2011.

Another important element of this task order is to update the calculation of the Capacity Charge for new connections to the wastewater collection and treatment system. Now that the projects upgrading the wastewater trunk line and treatment plant are completed, the actual costs can be factored into this updated Capacity Charge calculation. Part of this work will include an update to the list of customer classes sewed by the wastewater utility.

The services of The Reed Group, Inc., have been selected on the basis of their competitive pricing in comparison to a second proposal, timeliness in meeting deadlines on the water rate project, and their experience in linking water and wastewater usage-based rate structures for other communities. Their proposal is attached. The requested appropriation of \$60,000 includes allowances for staff costs and contingencies over and above the contract amount of \$48,100. Work products of this contract include a usage-based wastewater utility rate schedule, an updated wastewater capacity charge and participation in community outreach to implement the new rates and charges by the end of 2009.

APPROVED:

A handwritten signature in black ink, appearing to read "Blair King", written over a horizontal line.

Blair King, City Manager

Adopt Resolution Authorizing City Manager to Execute Task Order No. 2 for Wastewater Utility Financial Planning, Rate Setting and Capacity Charge Study with The Reed Group, Inc., of Sacramento (\$48,100) and Appropriating Funds (\$60,000)

June 17, 2009

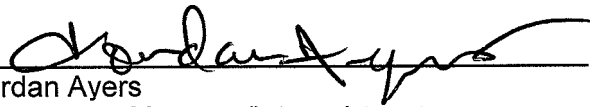
Page 2

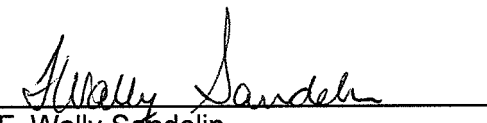
FISCAL IMPACT:

The analysis of current and future wastewater rate will ensure that operations and capital expenditures are balanced to the revenues.

FUNDING AVAILABLE:

Requested Appropriation: \$60,000 (Wastewater Capital - 171)


Jordan Ayers
Deputy City Manager/Internal Services Director


F. Wally Sandelin
Public Works Director

FWS/pmf

Attachment

cc: Water Services Manager



June 1, 2009

Wally Sandelin
City of Lodi
221 West Pine Street
P.O. Box 3006
Lodi, CA 95241-1910

Subject: Task Order No. 2 - Wastewater Utility Financial Planning, Usage-Based Rate Setting, and Capacity Charge Study

Dear Wally,

We were pleased to offer this proposal to perform the Wastewater Utility Financial Planning, Rate Setting, and Capacity Charge study. In response to e-mail message this morning, attached to this letter is a revised scope of work and cost estimate for the study. Added to the scope of services is a workshop on proposed wastewater capacity charges for the development community. The scope of services and cost estimate are in a format that can be easily attached to and referenced by the professional services agreement between the City and The Reed Group, Inc., or, if appropriate, used to amend the existing professional services agreement that covers the current water rate study.

I look forward to the opportunity to continue to work with you and other City staff on this important project. Once an agreement has been executed we should set up a kick-off meeting to begin the work. Prior to that meeting, I will prepare and submit a data and information request, which we can discuss during the kick-off meeting. I have also attached a project timeline, which integrates the water and wastewater rate and capacity charge studies. The timeline assumes Council action on the rates and capacity charges in November 2009. This schedule could also be an issue for discussion during our kick-off meeting.

If you have any questions regarding the attached scope of work and cost estimate, please call me at (916) 444-9622.

Sincerely,

A handwritten signature in black ink that reads 'Robert Reed'. The signature is fluid and cursive, with the first and last names clearly legible.

Robert Reed
The Reed Group, Inc.

EXHIBIT A – SCOPE OF WORK

This work plan is intended to meet the City's objectives for this study and is based on the scope of work discussed with the City in recent conversations. Deliverables associated with each task are identified.

Task 1 – Financial Plan Development

This study will include developing a multi-year financial planning model to evaluate the current and estimated future financial condition of the wastewater utility. The financial plan will then be used to (1) assess the financial implications of a variety of long-range planning and capital improvement program issues, (2) evaluate potential financing strategies, (3) identify the annual wastewater rate revenue requirements, and (4) consider financial policies and other actions to help mitigate future wastewater rate increases.

The financial planning model will provide a valuable tool for analyzing various financial issues. Working with City staff, we will identify, define, and model up to four scenarios for financial analysis. Scenarios will include evaluating the current and projected revenues and expenses related to wastewater system rehabilitation and upgrade projects, timeline, and funding, and evaluating the impacts of other planned wastewater projects. The analyses will include developing financial strategies for each scenario with the intention of minimizing future wastewater rate increases.

Deliverables: Memorandum summarizing financial plan scenarios, assumptions, findings, and financial strategies.

Task 2 – Wastewater Rate Calculations

This task will include development of recommendations regarding wastewater rates, including updating the City's wastewater rate structure. Annual revenue needs will be determined using the financial plan model. Wastewater rate calculations will include cost of service analyses and rate design steps to develop rate structures that provide needed revenues, are equitable to customers, and meet other City objectives. We will meet with staff to discuss the various rate structure alternatives available to the City, as well as their advantages and disadvantages. In particular, we will consider (1) updating service classification definitions to better reflect demands placed on the wastewater system by different types of uses, (2) tying wastewater rates to water usage and estimated wastewater flows, (3) financial stability associated with any revised rate structure, and (4) equity and reasonableness in wastewater rates. Rate structure recommendations will also reflect direction from the City Council and input from City staff. We will develop multi-year wastewater rate schedules based on a proposed rate structure. Calculations will be based on available data and information, and revenue requirements contained in the multi-year financial plan.

Deliverables: Wastewater rate summary report with 5-year rate schedules

Task 3 – Wastewater Capacity Charge Calculations

Following discussions with City staff, TRGI will recommend a wastewater capacity charge calculation methodology appropriate for the City's situation. Wastewater capacity charges will be calculated based on master plan and/or capital improvement plan information provided by

the City, as well as growth and demand projections provided in the master plan or other appropriate planning documents. Capacity charge calculations will be consistent with the requirements of Government Code Section 66013. In addition to the planned capital improvements financing costs and/or the value of existing wastewater system infrastructure may be included in the capacity charge analyses.

Annual capacity charge revenue will be estimated based on the proposed wastewater capacity charges and growth projections provided by the City. Financial plan cash flow analyses will include sensitivity analyses related to growth projections and the associated impact on the ability to meet debt service obligations.

Deliverables: Wastewater capacity charge summary report

Task 4 – Project Management/Coordination

This task includes various project management and coordination activities, as well as other activities not covered in other tasks.

4.1 Meetings with Staff – Our Project Manager, Bob Reed, will be available to meet with City staff throughout the project. We anticipate the need for a number of meetings with staff from various City departments to address issues such as wastewater service classifications, billing system constraints, etc. Other meetings may be required to coordinate with the City’s project manager, and to plan various aspects of the project.

Deliverables: Meeting agendas

4.2 Project Management – Bob Reed will also be responsible for managing and coordinating the activities of the project throughout the engagement. Mr. Reed will be the point of contact with the City and have overall responsibility for the project. Immediately upon receiving a notice to proceed, we will schedule a kick-off meeting between project team members and appropriate City staff. At that time, we will review the project scope, approach, and schedule, and coordinate initial activities.

In addition, each month we will prepare and submit via e-mail monthly invoices to the City’s project manager.

Deliverables: Monthly invoices

Task 5 – Presentations and Implementation

This task includes various presentations to the City Council, as well as to the Building Industry Association (BIA) and developers active in the Lodi market. In addition, we will provide assistance in adopting new wastewater rates and capacity charges through the required public hearing process.

5.1 “Shirt Sleeve” Study Sessions – The City Council conducts weekly study sessions where council members can devote time to specific issues. Because of the variety and complexity of issues to be addressed during this project, it is anticipated that a series of study sessions may be conducted with the Council to address the financial planning, wastewater rate, capacity charge, and related issues to be covered by the study. These study sessions would provide the opportunity for early input to the study as well as a chance to become fully familiar with the many complex and interrelated issues that will impact the wastewater utility for years to come. While

the specific schedule and agenda for these study sessions will be determined as the study progresses, this sub-task allows for up to four study sessions with the City Council.

Deliverables: Study Session materials

5.2 Outreach Workshop with Development Community – This sub-task will include holding a workshop on proposed wastewater capacity charges for representatives from the BIA and active developers within Lodi. The workshop will provide an opportunity to describe the proposed capacity charges, calculation methodology, and underlying assumptions, as well as answer questions related to the capacity charges. City staff may wish to expand the scope of the workshop to include discussion of major capital improvement projects planned to meet the needs of new development, or other related information. It is assumed that the City will identify and invite workshop participants and provide the room and any needed snacks/refreshments.

5.3 Presentation of Recommendations – Final study conclusions and recommendations will need to be presented to the City Council for consideration and approval. We propose to attend and make formal presentations during two City Council meetings. The first meeting would occur once recommendations are finalized and would precede the start of the public hearing notice processes required to approve new wastewater rates and capacity charges. The second presentation to the City Council would occur in conjunction with a public hearing to adopt new wastewater rates and capacity charges. In particular, we propose to present recommendations regarding (1) multi-year financial plan and revenue needs, (2) updated wastewater rate structure, and new wastewater capacity charges for new development.

Deliverables: Presentation materials

EXHIBIT 2 – ESTIMATED PROJECT COST

The table below summarizes the estimated cost for the wastewater financial planning, rate setting, and capacity charge study. The cost estimate includes estimated hours and expenses for each task. The detail is provided for information purposes. We are committed to providing the services as described herein for a not-to-exceed limit of **\$48,100**, including expenses. While the costs associated with individual tasks may vary from those shown in the table, the entire project would be performed within the contract ceiling unless modified in writing by contract amendment.

| City of Lodi | | | | |
|--|---|---------|------------------|--|
| Wastewater Utility Financial Planning, Rate Setting, and Capacity Charge Study | | | | |
| Estimated Total Project Cost | | | | |
| | | R. Reed | Professional | |
| | Project Task | (hours) | Fees | |
| | Hourly Rate --> | \$ 220 | | |
| 1 | Financial Plan Development | 36 | \$ 7,920 | |
| 2 | Wastewater Rate Calculations | 44 | \$ 9,680 | |
| 3 | Wastewater Capacity Charge Calculations | 54 | \$ 11,880 | |
| 4 | Project Management/Coordination | 28 | \$ 6,160 | |
| 5 | Presentation and Implementation | 54 | \$ 11,880 | |
| | Total Hours and Prof. Fees | 216 | \$ 47,520 | |
| | Expenses | | \$ 580 | |
| | Estimated Total Project Cost | | \$ 48,100 | |

The Reed Group, Inc. shall submit invoices for actual time and expenses, subject to the not-to-exceed budget, on a monthly basis. All payments are due within 30 days. The cost estimate is valid for 90 days and is based on the scope as described herein. Hourly billing rates and other charges are subject to adjustment in January of each year.

PROJECT SCHEDULE

The timeline below assumes Council action on water and wastewater rates, and water and wastewater capacity charges in November 2009, and therefore combines and coordinates the tasks of multiple projects. This timeline would allow new rates and charges to go into effect at the beginning of 2010. The schedule can be modified if the needs of the City change. Data and information requests will be prepared and submitted for the water capacity charge study and the wastewater rate and capacity charge study as soon as contracts are executed. Kick-off meetings for those two projects will also be scheduled at that time.

| | |
|--|------------------|
| Develop wastewater financial plan model | June |
| Update water/WW financial plans with FY 09-10 budgets, etc. | Late June |
| Develop metered water rate structure memorandum | Early July |
| Develop/discuss alternatives for wastewater rate structure | Early July |
| Develop/discuss methodology for WW capacity charge calculation | Early July |
| Obtain WTP cost estimates and develop capacity charge model | July |
| Develop wastewater capacity charge model and summary report | July |
| Develop wastewater rate structure summary report | Late July |
| Prepare water capacity charge report | Early August |
| Council "shirt sleeve" meetings on rates and capacity charges | Late July-August |
| Finalize rate and capacity charge recommendations | Early September |
| Present rate and capacity charge recommendations to Council | September 21 |
| Mail notice of rate hearing to customers | October 1 |
| Public hearings on rates and charges | November 16 |
| Rate and capacity charge implementation | January 2010 |

The Reed Group, Inc. will review the schedule with City staff during the kick-off meeting. In particular, we will review the timing and topics for study sessions to be held with the City Council. Many of the tasks for the three projects can proceed in parallel, although some activities will need to follow a logical sequencing.

A RESOLUTION OF THE LODI CITY COUNCIL AUTHORIZING
THE CITY MANAGER TO EXECUTE TASK ORDER NO. 2 WITH
THE REED GROUP, INC., FOR WASTEWATER UTILITY FINANCIAL
PLANNING, RATE SETTING, AND CAPACITY CHARGE STUDY
AND FURTHER APPROPRIATING FUNDS

=====

WHEREAS, this project will evaluate the wastewater utility rate structure in order to convert residential rates from a "bedroom-count" basis to a usage-based rate that will be linked to the future water usage-based utility that will replace the "bedroom-count" structure currently used in the City; and

WHEREAS, The Reed Group, Inc., is currently in the process of completing work on the development of the water usage-based water rate structure that will be implemented as part of the water meter installation program; and

WHEREAS, another important element of this task order is to update the calculation of the Capacity Charge for new connections to the wastewater collection and treatment system. Now that the projects upgrading the wastewater trunk line and treatment plant are completed, the actual costs can be factored into this updated Capacity Charge calculation. Part of this work will include an update to the list of customer classes served by the wastewater utility; and

WHEREAS, the services of The Reed Group, Inc., have been selected on the basis of its competitive pricing in comparison to a second proposal, timeliness in meeting deadlines on the water rate project, and its experience in linking water and wastewater usage-based rate structures for other communities; and

WHEREAS, the requested appropriation of \$60,000 includes allowances for staff costs and contingencies over and above the contract amount of \$48,100.

NOW, THEREFORE, BE IT RESOLVED that the Lodi City Council does hereby authorize the City Manager to execute Task Order No. 2 for wastewater utility financial planning, rate setting and capacity charge study with The Reed, Group, Inc, of Sacramento, California, in the amount of \$48,100; and

BE IT FURTHER RESOLVED that funds in the amount of \$60,000 be appropriated from Wastewater Capital funds.

Dated: June 17, 2009

=====

I hereby certify that Resolution No. 2009-84 was passed and adopted by the City Council of the City of Lodi in a regular meeting held June 17, 2009, by the following vote:

AYES: COUNCIL MEMBERS – Johnson, Mounce, and Mayor Hansen

NOES: COUNCIL MEMBERS – None

ABSENT: COUNCIL MEMBERS – Hitchcock and Katzakian

ABSTAIN: COUNCIL MEMBERS – None


RANDI JOHL
City Clerk